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SUBJECT: NORTH KOREA ECONOMIC BRIEFING - AUGUST 2009

11. (U) This cable is sensitive but unclassified and not/not intended for Internet distribution.

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Domestic Economy

12. (SBU) ROK Think Tank: DPRK Faces Worst Economic Crisis Since 1994: According to the Review of the North Korean Economy, a monthly report released by the ROKG-run Korea Development Institute (KDI), North Korea is now facing the worst economic crisis since Kim Il-sung died in 1994. North Korea will likely go into a deeper slump and become unable to feed its people by the end of 2009 unless it quickly resolves a long-standing nuclear stalemate with the international community. Succession issues, United Nations sanctions and frozen inter-Korean relations weighed heavily on the DPRK economy in the first half of this year. (Inter-Korean trade in

the first half of this year fell 26 percent from the same period of 2008 to USD 653 million.) According to KDI, anecdotal evidence varies. On the one hand, foreigners who have recently visited Pyongyang say there are no visible signs of an economic downturn as large scale construction works continue and mobile phone subscriptions rise. In contrast, according to representatives of the World Food Program and international NGOs who have visited remote areas of the DPRK, a majority of ordinary North Koreans face a serious food crisis.

13. (SBU) DPRK Develops Wind Power Capacity: The Ministry of Unification (MOU) reported July 15 that North Korea has recently completed a wind power electricity generation and distribution system in South Hwanghae Province. The MOU quoted the Korea Central News Agency (KCNA) as saying that Unchon County in South Hwanghae Province has set up thousands of wind power generators in houses and public buildings. The generators, which have been installed in Haeju city, Gangryong, Ongjin, Yonan, Jangyon, Anak and Chongdam counties, are used for household electricity.

14. (SBU) Number of DPRK Mobile Phone Users Increases to 48,000: Chosun Ilbo reported July 30 that the number of mobile phone users in the DPRK reached 48,000 persons as of the end of June this year. Orascom, an Egyptian service provider, began the mobile service in December 2008 and plans to expand the service area from Pyongyang to the entire country by the end of 2009. The newspaper quoted Naguib Sawaris, chairman of Orascom, who visited Seoul on July 14-15 for a Global System for Mobile Communications (GSM) Association conference, as saying his company plans to begin 3G mobile service in major cities such as Kaesong within the year and to expand the

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number of mobile phone subscribers to 100,000. The company plans to invest USD 500 million over the next five years. Officials of the North Korean Workers' Party and the DPRK government are reportedly banned from using mobile phones for security reasons. Ordinary North Koreans, whose monthly income is about 4,000 North Korean won (USD 30), cannot afford the service due to the high price of handsets, which cost at around USD 300-500, and the subscription fee. The company said that it will soon begin the High Speed Packet Access service at the request of foreigners who want to use wireless Internet in the DPRK. Orascom currently operates 114 base stations and one mobile phone exchange office.

15. (SBU) DPRK Begins Mobile Phone News Service: Yonhap News Agency reported July 6 that Ryomyong (www.ryomyong.com), a website run by the North Korean Council for Reconciliation and Cooperation, has recently begun a mobile news service. The service provides news reports by North Korea's state-run Rodong Shinmun and the Korea Central News Agency. In addition, the service includes a collection of North Korean music, images and video clips of North Korean books, art, regional specialties, trademarks, Mount Baekdu, the Daedong River and historical relics in the DPRK. Accessible mobile phone sets include Motorola, Samsung, Phillips and all WAP-applicable mobile phone sets, the Website specified.

16. (SBU) Pyongyang Opens First Fast Food Restaurant: Chosun Sinbo, a pro-North Korea newspaper based in Japan, reported July 25 that North Korea has recently opened its first "fast food" restaurant in Pyongyang. The restaurant, named Samtaeseong, sells hamburgers, French fries, waffles and draft beer for prices ranging from USD 0.60 to USD 1.70. It was set up by a Singaporean firm which provided training and equipment, while the DPRK provided employees and food. Croissants and hot dogs will be added to the menu soon. Ko Jong-ok, manager of the restaurant was quoted by APTN on July 30 as saying, "Our restaurant specializes in serving popular food that is well-known throughout the world. It is not so long since its opening, but our restaurant has become popular among North Koreans and foreigners." She also said the restaurant plans to open branches in many places within Pyongyang in the near future. It opens from 11 am through 9 pm everyday with 15 female staff who are in their 20s. According to a 2008 report by Radio Free Asia (RFA), the DPRK had unsuccessfully attempted to entice McDonald's into opening a franchise in North Korea.

17. (SBU) DPRK Launches First TV Ads for Beer: North Korea's

Central Television Broadcasting launched a television advertising campaign for locally brewed Taedonggang beer. The ad features a young woman in traditional Korean dress serving trays of beer to a man in a Western suit. The two-and-a-half minute advertisement says, "It represents the new look of Pyongyang... It will be a familiar part of our lives." Observing it is rare for the DPRK to make television commercials, some ROK experts on North Korea believe the commercial was intended as propaganda to demonstrate improvement in the DPRK economy. Taedonggang Beer factory bought Britain-based Ushers Beer Brewery and shipped it in its entirety from the United Kingdom in 2002. Yonhap News Agency reported August 9 that sales of the beer have significantly jumped since the advertisement was launched.

18. (SBU) DPRK Establishes Food Industry Ministry: Korea Central News Agency reported July 22 that the Presidium of the DPRK Supreme People's Assembly issued a decree setting up a "Ministry of Food and Daily Necessities Industry." Local media outlets analyze this could be related to a 2009 New Year's editorial published by the KCNA, in which North Korea vowed to "solve food problems by our own efforts" and rebuild North Korea's ailing economy by 2012. KCNA gave no further details on the new Ministry.

19. (SBU) New Resort Hotel Opens in South Hamgyong Province: KCNA reported July 28 that North Korea has built a "world-class" hotel with various modern facilities on the Majon Amusement Complex on the east coast, South Hamgyong Province, North Korea. It said that the Majon Hotel is equipped with first-class accommodation and recreation facilities such as an indoor swimming pool, a steam sauna, a public bath and a beach resort. It did not specify size of the hotel but the Majon Amusement Complex is reportedly situated on nearly 3 million square meters.

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Foreign Trade and Investment

10. (SBU) China Bars Strategic Material Shipment to the DPRK: A Chinese customs official in Dandong, a border city between China and the DPRK, said Chinese authorities discovered a shipment of vanadium, a strategic metal with missile and nuclear applications, in fruit boxes on a truck traveling to the DPRK, according to a July 29 Associated Press report. The authorities found USD 29,300 worth of the vanadium during a routine check. Vanadium alloys are used for missile castings or jet engines, but it was not immediately clear whether the intercepted metal was designed for such applications.

11. (SBU) DPRK-China Trade Fell in May: The Ministry of Unification (MOU) reported that the Chinese Customs Office on July 22 announced bilateral trade between the DPRK and China in May fell 6.5 percent from the same month a year ago to USD 192 million. DPRK exports to China in May dropped 2.9 percent to USD 63.6 million and imports were also down 8.2 percent to USD 128 million. However, DPRK exports to China of anthracite and zinc increased by 160 percent and 2,370 percent, respectively from a year earlier. DPRK imports of soy beans for seedlings and dried fish also jumped by 3,017 percent and 161 percent, respectively, in May from a year earlier. Bilateral trade between the DPRK and China from January to May this year fell 5.7 percent to USD 833 million. DPRK exports to China from January to May this year rose 9.1 percent to USD 270 million, while imports dropped 11.6 percent to USD 564 million.

DPRK - China Trade in 2009 (Monthly)

Month	DPRK Exports		DPRK Imports		Overall Trade	Growth Percent
	To China	Growth Percent	From China	Growth Percent		
Jan.	41,460	-13.0	84,758	-37.4	126,218	-31.0
Feb.	40,558	26.9	91,042	49.1	131,600	41.4
Mar.	57,339	25.8	129,057	-23.8	186,396	-13.2
Apr.	66,560	18.1	130,547	-1.0	197,107	4.7

May	63,593	-2.9	128,155	-8.2	191,748	-6.5
TOTAL	269,510	9.1	563,559	-11.6	833,069	-5.7

Source: The Chinese Customs Office

¶12. (SBU) DPRK Grain Imports from China Expected to Rise as China Scraps Export Tariffs: RFA reported July 7 that the Chinese government abolished export tariffs on grains beginning from July 1 this year. The change is intended to encourage Chinese farmers to improve grain productivity in addition to preventing oversupply. (Last December, the Chinese government raised export tariffs on grains to secure domestic supply and restricted all grain exports except for exports to Hong Kong and Macau because grain prices skyrocketed.) RFA analyzes that China's exports of grains to the DPRK are expected to grow.

¶13. (SBU) Koryo Air Expands Service between Pyongyang and China But Faces Safety Concerns: RFA reported July 15 that North Korea's Air Koryo plans to expand air routes with China with a new Pyongyang-Shanghai flight. The air carrier also plans to start operating a chartered flight between Pyongyang and Qingdao. Air Koryo currently operates direct air routes only to Beijing and Shenyang. Air China, which also operates flights between Beijing and Pyongyang, has recently reduced flight service to once a week from three times a week. JoongAng Daily on July 20 reported that Air Koryo is increasingly losing favor among world aviation officials due to safety problems. Dubai and Qatar rejected requests from Air Koryo to launch non-regular flights in May, citing safety problems. International organizations such as World Health Organization and UNICEF advise their workers to refrain from flying Air Koryo. Moreover, the European Union banned Air Koryo flights in the region and the International Air Transport Association failed the air carrier during a safety inspection in December 2007. Air Koryo currently owns 20 aircraft (mainly old Russian models) and only 10 are currently in operation. It purchased a new aircraft (TU-204) from Russia in December 2007 (see photo).

¶14. (SBU) U.S. CRS Staffer: DPRK Earns USD 2 Billion a Year in

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Arms Trade with Iran: Chosun Ilbo reported that Larry Niksch, a specialist on the DPRK with the Congressional Research Service, said on July 15 that North Korea earns over USD 2 billion annually in arms deals with Iran. Niksch said at a conference held by the Cato Institute on July 14 that Iran, Syria and Burma have recently become major customers of North Korea. He claimed that North Korean scientists and engineers as well as missiles, missile parts and technical drawings for missiles are being transferred by air between the DPRK and Iran. Niksch said flights between Pyongyang and Tehran should be a key target for sanctions against the DPRK. He called on China to block such deals by banning overflights. He also claimed all food aid from China to North Korea has been diverted to soldiers, therefore reduction of Chinese food aid to the DPRK would exert substantial pressure.

¶15. (SBU) DPRK Software Industry Explores Overseas Market: Yonhap News Agency cited a July 13 DPRK Internet portal, Naenara (www.kcckp.net), report that North Korea had recently published a list of leading software companies in the DPRK, hoping to win increased orders from overseas. The DPRK state-run software developers were established almost two decades ago to meet domestic demand in the DPRK as well as aiming at exports to China, Japan and Europe. North Korean leader Kim Jong-il began to place increased focus on the DPRK's computer industry in 1990, setting the industry's development as one of the state's prime goals. The DPRK has since set up the Chosun Computer Center in Pyongyang as a base for North Korea's computer industry and a special after-school program for talented students. DPRK elementary schools have adopted computer and English classes as regular curriculum since September 2008.

Inter-Korean Economic Cooperation

¶16. (SBU) ROKG Tightens Restrictions on Luxury Goods to the DPRK: The MOU reported July 10 that it will tighten controls of South

Korean goods shipped to the DPRK, banning most luxury items in accordance with the United Nations Security Council Resolution 1874 which was adopted following North Korea's second nuclear test in May this year. The MOU said that prior authorization will be required for South Koreans to bring the following items to the DPRK:

- Wine and distilled liquor
- Cosmetics: Perfume, skin care and make-up cosmetics
- Leather Goods: Handbags, trunks and suitcases
- Fur
- Carpets and Rugs
- Pearls and Jewelry
- Electric Equipment: Televisions, cameras, video cameras and projectors
- Automobiles: Passenger vehicles, motorcycles and sidecars
- Ships: Yachts, leisure boats and canoes
- Optical Equipment: Professional cameras and film projectors
- Watches: Wrist and pocket watches
- Musical Instruments: Pianos, harpsichords and strings
- Art collections and Antiques

¶17. (SBU) The ROKG will allow exceptions for the ROKG and business officials who bring the listed items during travel between the two Koreas on official duty or for personal use during their stay in the DPRK.

¶18. (SBU) ROKG Imposes Financial Sanctions on DPRK Firms and Individuals: South Korea's Ministry of Strategy and Finance (MOSF) said July 27 that the ROKG will impose financial sanctions on five North Korean officials and five institutions for their alleged activities in proliferation of weapons of mass destruction. It is the first time the ROKG has imposed sanctions on North Korean individuals. The measures were at the request from the United Nations Security Council. The five designated North Korean officials include Ri Je-son, director of the General Bureau of Atomic Energy, Yun Ho-jin, director of Namchongang Trading Corporation, Ri Hong-sop, and former director of the Yongbyon Nuclear Research Center, Hwang Sok-hwa, a senior official of the General Bureau of Atomic Energy, and Han Ru-ro, director of Korea Ryongakan General Trading Corporation. The five entities are the General Bureau of Atomic Energy, Hong Kong Electronics, Namchongang Trading Corporation, Korea Kyoksin Trading Corporation and Korean

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Tangun Trading Corporation. In June this year, the ROKG had imposed economic sanctions on (North) Korea Mining Development Trading Corporation, Tanchon Commercial Bank and Korea Ryongbong General Corporation.

¶19. (SBU) ROK Automaker in DPRK Makes First Profit: Local media outlets reported July 15 that Pyeonghwa Motors, a ROK firm operating an automobile production joint-venture in Nampo, North Korea, has posted its first net profit (USD 700,000) since it began production in 2002. The company's spokesman was quoted as saying that Pyeonghwa Motors has sent USD 500,000 of the total net profit to its headquarter in Seoul via South Korea's Woori Bank branch in Hong Kong. The company said that it sold a total of 652 units in 2008. It also said that the company's profits are picking up, with this year's sales already surpassing 740 cars. Park Sang-kwon, President and CEO of Pyeonghwa Motors said that the company runs on a strictly cash basis, with no credit sales or discounts. A sedan costs about USD 18,000, and the company accepts only U.S. dollars or Euros. Customers are mostly trade agencies who have easy access to foreign currency. Auto insurance is also available, for about 300 Euros (USD 428) a year. Park also said that the company is benefitting from the DPRK's efforts to fulfill its campaign to make the country more prosperous by the one hundredth anniversary of Kim Il-sung's birth in 2012. Production is in full swing as 340 North Korean employees work extra hours, some doing the night shift in accordance with North Korea's so-called "150-day Battle" a labor productivity campaign that continues until September this year. Pyeonghwa Motors had imported partially built cars (semi-knockdown kits) at first, and completed them with spare parts in partnership with Italy's Fiat and China's Brilliance Automotive Holdings. The company shifted to a kit process with advanced technology, locally assembling entire parts with the oversight of South Korean, Japanese and Chinese

engineers.

¶20. (SBU) Meanwhile, Chosun Sinbo reported July 14 that Sungri Motor Complex, North Korea's sole home-grown automaker, aims to expand its annual production to 10,000 units by 2012, a level not reached since its peak in the 1970s. It said that the production decreased after the 1970s, the workforce of the company fell to 75 percent of the peak years due to the economic hardships in the late 1990s. The automaker began production of trucks named "Sungri 58-type," "Sungri 61-type," and "Jaju (independence) 64-type" in April this year.

¶21. (SBU) Number of KIC Workers Rises: According to the MOU on July 13, the total number of North Korean workers at the Kaesong Industrial Complex (KIC) reached 40,255 people as of the end of June this year, an increase of 1,324 workers from end of 2008. Currently, 109 ROK firms operate at KIC, up from 93 firms as of the end of 2008.

¶22. (SBU) Inter-Korean Trade Fell 19.7 Percent in June 2009: According to data recently released by the MOU, inter-Korean trade in June fell 20 percent to USD 118 million. Trade between the two Koreas has declined for ten consecutive months since September last year. Commercial transactions between the two Koreas declined 16 percent to USD 117 million, while non-commercial transactions fell 88 percent to USD 1 million, reflecting the chilled inter-Korean ties. Meanwhile, cumulative inter-Korean trade in the first half of the year drop 26 percent over the same period of a year earlier to USD 653 million. ROK exports to the DPRK in the first half of the year also declined 41.8 percent to USD 267 million, while the imports slightly fell 8.7 percent to USD 386 million.

INTER-KOREAN TRADE IN JUNE 2009

(UNIT: USD THOUSAND, PERCENT)

Commercial Transactions

	South Exports To North	South Imports from North	Total
General Trading	1,038(-72)	17,904(-34)	18,942(-39)
Processing-on Commission(POC)	15,238(12)	9,542(-14)	24,780(-0.1)

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Kaesong Industrial Complex	37,599(-21)	32,343(35)	69,942(-3)
Mt. Kumgang Tourism Project	279(-96)	117(-86)	396(-95)
Other Economic Projects	1,443(-36)	1,246(2)	2,689(-23)
Light Industry Cooperation	0	0	0
Subtotal	55,597(-25)	61,152(-5)	116,749(-16)

Non-Commercial Transactions

	South Exports To North	South Imports from North	Total
NGO Aid	990(-83)	0(0)	990(-83)
Government Aid	0	0	0
Social,Cultural Projects	0	0	0
Energy Aid	0	0	0

(HFO)

Subtotal	990(-88)	0(-100)	990(-88)
TOTAL	56,587(-31)	61,152(-5)	117,739(-20)
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(1)Source: Ministry of Unification

(2)Note: Figures in parenthesis indicate the comparison from the same month of 2008.

Foreign Aid

¶23. (SBU) China Reportedly Sends 370 Military Vehicles to the DPRK:

RFA reported July 2 that China has recently shipped 320 military trucks and 50 military jeeps to the DPRK. RFA cited a Chinese source claiming the shipment of military vehicles was made at the request of the DPRK Minister of Armed Forces who secretly visited China on June 10 this year.

¶24. (SBU) U.S. NGO Helps DPRK Agricultural Industry: According to Voice of America on July 31, the Mennonite Central Committee, a U.S.-based non-governmental organization, plans to spend USD 1 million to help the DPRK agricultural sector. It will initiate a conservation agriculture project in three cooperative farms in Hwanghae Province, North Korea, including the provision of agro-machinery and technical training. The project is scheduled to be completed in December 2011.

¶25. (SBU) French NGO Restores DPRK Reclaimed Land: RFA reported July 28 that Triangle Generation Humanitaire (TGH), a French NGO helping the DPRK has recently restored a land reclamation project on the west coast of North Korea. The reclaimed land, the largest in the DPRK with a total of 3,200 hectares, was originally reclaimed in 1994 but mismanaged dykes rendered the site useless by 1995. TGH said that the restoration project will help in mitigating food shortage problems in the region. Around 7,000 North Koreans in the region took part in the construction works and they received food supplied by the French NGO. TGH has carried out this project with the financial support of 2.1 million Euros (USD 3 million) by the Swedish government and the European Union.

TOKOLA